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Mexico

HRI Food Service Sector

The Mexican Market for the HRI Food Service Industries

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Report Highlights:

The HRI market in Mexico represents good export opportunities for U.S. suppliers of food and beverages. Upscale hotels and restaurants that cater to international tourism are the most important sectors to target. A key step to entering this market is to find and keep in constant contact with a reputable distributor. No import duties apply to U.S. food and beverages entering the Mexican market and they are regarded as consistent high quality products by the HRI industry.

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SECTION I. Market Summary

Mexico continues to offer great export opportunities for U.S. suppliers of agricultural products for the hotel, restaurant and institutional food service sector. At present, Mexico is the world's 8th largest tourist destination with around 2.5 percent of world tourism. According to Sector (Mexico's Secretariat of Tourism), Mexico received 92.2 million foreign visitors in 2007, which include cruise passengers, border crossers and one-day excursions. More importantly, 21.4 million of the foreign visitors were overnight tourists. The average per capita spending for tourists grew from US\$678 in 2005 to US\$750 in 2007. Around 30 percent of this money or US\$5.3 billion is spent on food and beverages.

According to Mexico's Sector, there are 13,060 hotels with 515,904 rooms in Mexico, and 234,872 restaurants. Key tourist destinations such as Los Cabos and Cancun that cater mainly U.S. tourists are always concerned about offering quality U.S. products and brands that are more appealing to them. Also, U.S. restaurant chains such as The Palm, Bubba Gump, Outback Steak House that also attract many foreign tourists serve larger amounts of U.S. products than other restaurants. Large hotel groups and fine and casual dining restaurants represent the best sales possibilities for U.S. exporters. The most imported products include meat, poultry seafood, dairy products, and wines. Of all products consumed in these establishments, approximately 15 percent are imported. The U.S. still dominates the imported products market. However, competition from third country suppliers continues to grow.

There is no official data on the institutional food service market in Mexico. However industry representatives estimate that about twelve million meals are prepared each year.

The HRI sector is served almost exclusively through independent distributors. While some hotels and restaurants do import directly, U.S. suppliers will most likely need to service the market through an established distributor.

Table 1. Advantages and Challenges Facing U.S. Products in Mexico

Advantages	Challenges
The United States continues to dominate the market for imported food and beverages for Mexico's HRI sector.	Commercial barriers such as labeling, phytosanitary and sanitary regulations and NOMs (Mexican quality standards) continue to pose obstacles for importing food and agricultural products.
Geographical proximity gives U.S. exporters a competitive advantage over third country suppliers.	As Mexico's transportation, storage and distribution infrastructure continues to improve, other countries will be able to deliver product more efficiently to the Mexican market.
Because of NAFTA, import duties on U.S. food and beverages are now duty-free.	Mexico has negotiated free trade agreements with a wide array of European, Asian, Central and South American countries, which also gives them preferential duties for some products as well. Seafood is one of the product categories entering Mexico duty-free from most of these other countries.
Rising per capita income and more women in the work force are increasing the demand for away from home meals.	U.S. firms must aggressively solicit new business and establish in-country sales and servicing infrastructure.
International visitors demand high quality foods.	Strong competition from local suppliers that provide a wide array of products at

	competitive prices. Although the quality is not always consistent, price is still a strong decision making factor in the industry.
Many Mexicans are familiar with U.S. chain restaurants and hotels and are aware of their quality standards.	Up-scale restaurants, which are the main consumers of imported foods and beverages, are limited.
Local and foreign investment from hotel and restaurant chains continues to increase.	Local suppliers aggressively approach U.S. chains to offer food and beverage products at competitive prices making it harder for U.S. exporters to convince them to continue to buy U.S. products.
U.S. food and beverages are regarded by the Mexican HRI industry as consistent high quality products.	Transportation and distribution pose continued constraints. Especially for the adequate handling of frozen and refrigerated cargo in some ports and airports in the country.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

U.S. suppliers should work through local distributors since selling to the HRI sector requires servicing to hundreds or thousands of points. Local distributors will be responsible for importing and delivering the products, collecting payment and resolving any problems. In general, HRI buyers like to deal in person with their suppliers, and service is important to them. The key to success in this market is finding a qualified firm with the necessary infrastructure to handle specific products and a good reputation to successfully serve the market.

The best way to find a distributor and determine the viability of your product in the market simultaneously is to visit Mexico and meet with prospective representatives. These distributors are constantly visiting customers and introducing new products; if anyone knows whether a given food item has possibilities, it is the distributors. The USDA's Agricultural Trade Offices (ATOs) in Mexico can assist in contacting these distributors and arranging interviews in Mexico.

Buyers will insist on having product samples tested in the hotel or restaurant. Chefs usually choose ingredients, so getting the food item tested by these decision-makers is an important first step.

Once a distributor is established, the U.S. supplier needs to nurture the relationship. Effective communication between the supplier, distributor, and end-user is very important to stay in the market. U.S. suppliers should closely monitor their distributor's activities by traveling to the market, going on customer calls and supporting promotional activities.

It is rare, but possible to sell directly to hotels or restaurants. Some of the largest hotel and restaurant chains might import a specific product directly but most of their purchases are done locally. However, if the U.S. supplier wants to sell to other HRI users, they will have to go through a local distributor anyway.

B. MARKET STRUCTURE

Distribution

Distribution is the most important factor in the success of selling food products in Mexico. A distributor is the primary channel for food products exported from the United States and sold in Mexico.

Food and beverage products for the HRI market are supplied through various types of distributors. The main types include:

- 1) Central de Abastos (Central Supply Market) and Club Stores, which sell and distribute basic dry goods and fresh products. COSTCO has been aggressively servicing the foodservice market through a dedicated delivery system for the past few years. Smaller HRI operations purchase their own goods directly.
- 2) Specialized independent importers and distributors with their own warehousing facilities and delivery vehicles that service all the HRI sector.
- 3) Specialized distributors in one main product: Examples include Comercial Norteamericana (meat products), Cremeria San José (cheeses), and Vininter (wines).
- 4) Specialized in a wider selection of products such as frozen and refrigerated: Two examples are Mexideli and Alimentos Prácticos y Selectos (APYS).
- 5) Large trading companies that only serve their own sister companies, such as Martin Brower for McDonald's and DIA-Distribuidor Internacional de Alimentos which sells to Domino's Pizza, Burger King, Starbucks Coffee, Chili's and Popeye's. All these companies are owned by ALSEA, one of the largest food service groups in Mexico.
- 6) Dedicated Distributors that generally supply products manufactured by their own companies: Such is the case of Chef Mart that handles the products for Jumex, La Costeña, and Sabormex among others; Unilever and Nestle Food Service among others.
- 7) Large logistic companies that service hotels and restaurants among other clients: Examples include Pacific Star (frozen, refrigerated and dry goods) for KFC, Pizza Hut, Cinemark, Fiesta Americana Hotels, Baskin Robins, 7 eleven; and Frialsa (frozen and refrigerated goods).
- 8) Large companies with experience in the market such as Conagra Foods. This is the preferred method for most companies since they can maintain control over distribution. Still, it requires a substantial investment and is not a practical option for any but the largest companies.

The HRI sector relies largely on local distributors. There is no large "multi-supplier" similar to Sysco in the United States that serves the HRI sector. For this reason, dozens of trucks make deliveries each day to large hotels and restaurants.

Most of the largest chains use local firms to supply the products they need, such as in the case of groups like, Grupo Anderson's (Carlos & Charlie's, Shrimp Bucket, Sr. Frog's) and Grupo ECE (Planet Hollywood, Hard Rock, Rain Forest Cafe). Sometimes, although there is a buyer in the corporate office, purchasing decisions are made at each one of their restaurants.

Only Mexican entities registered with the Ministry of Economy as importers may bring product into Mexico. The importer will be one of three entities, an independent importer-distributor, the hotel or restaurant itself, or a distribution subsidiary of the U.S. supplier.

Distributors' margins can range between 15 to 40, percent depending on whether the food item is a gourmet product or more of a commodity. U.S. suppliers are usually shocked at these mark-ups, but a distributor in Mexico has higher costs and risks than does one in the United States for at least two reasons. First, the import process is time-consuming and cumbersome. Second, distributors do not wait for checks to come in the mail; they may have to send a messenger several times to a customer's office in order to collect. Hotels and restaurants usually receive 15 to 30 days credit from suppliers.

Transportation

Land border crossing by truck is the most common form of transportation for U.S. food products. Excluding Cancun and the Pacific resorts, the largest Mexican markets in the HRI sector are located in the interior of the country. Approximately 80 percent of all U.S. exports to the HRI sector are transported to Mexico via truck. Although the Mexican national railway system is modernizing rapidly, it is still not an option for anything but bulk commodities. Maritime transportation from the United States may be considered for delivery to Cancun, but is generally not practical for processed foods. A limited amount of product, usually fresh, is sent from the United States by air.

C. SUB-SECTOR PROFILES

Hotels and Resorts

At present, Mexico is the world's 8th largest tourist destination with around 2.5 percent of world tourism. According to Sectur (Mexico's Secretariat of Tourism), Mexico received 92.2 million foreign visitors in 2007, which include cruise passengers, border crossers and one-day excursions. More importantly, 21.4 million of the foreign visitors were overnight international tourists, who spent US\$10.4 billion. The average per capita spending for tourists grew from US\$678 in 2005 to US\$750 in 2007. Around 30 percent of this money or US\$5.3 billion is spent on food and beverages.

Table 2. Number of Visitors to Mexico and Total Spending

Year	Total # of Visitors (Thousands)	Total Spending (US\$ Millions)	Total # of Int'l Tourists	Total Spending (US\$ Millions)
2004	99,250	10,796	20,618	8,382
2005	103,146	11,803	21,915	9,146
2006	97,701	12,177	21,353	9,559
2007	92,233	12,901	21,424	10,389

Source: Secretary of Tourism

According to Sectur, there are 13,060 hotels with 515,904 rooms in Mexico. Four and five star hotels make up 43 percent of the rooms available around the country. This is significant since imported food products are more likely to be used at upscale hotels catering to foreign travelers. The Mexican hotel industry derives approximately 30 percent of its total income from the sale of food and beverages.

Table 3. Hotels by Category and Number of Rooms

Category	# of Hotels	# of Rooms
Five Star	679	122,449
Four Star	1,264	99,635
Three Star	2,146	86,595
Two Star	1,873	56,280
One Star	1,813	44,149
No Category	5,285	106,796
TOTAL	13,060	515,904

Source: Secretary of Tourism

The hotel industry in Mexico is dominated by some large groups of which Grupo Posadas (Fiesta Americana Hotels) is the largest with 92 hotels, followed by the Presidente-Intercontinental hotels with 58 hotels, Camino Real Hotels, Mision Hotels, and Royal Holiday Servicios Administrativos (former Grupo Costamex) are also key players.

Table 4. Principal Hotel Groups in México

Company Name	Hotel Name	Units
Grupo Posadas	Fiesta Americana Grand, Fiesta Americana, Fiesta Inn Aqua, One	92
Intercontinental Hotels Group	Presidente Intercontinental, Holiday Inn, Crowne Plaza Indigo, Staybridge	58
Grupo Empresarial Angeles	Camino Real	26
Hoteles Misión	Hoteles Misión	22
Royal Holiday Servicios Administrativos	Hyatt, Sheraton, Park Royal Holiday Inn	17
Grupo Sendant	Howard Johnson	13
Grupo Milenium Northern Mexico	Holiday Inn, Presidente Intercontinental, Crowne Plaza	13
Nacional Hispana de Hoteles	Hoteles NH	11
Grupo Sol Meliá	Meliá, Gran Meliá, Paradisus, ME	9
Operadora Turística y Hotelera Playa Sábalo Marina del Sábalo	El Cid Resorts	6
Grupo Carso	Hoteles Calinda	6
Consorcio Aristos	Hoteles Aristos	3
Hotel Nikko México	Hotel Nikko México	1

Source: Telephone interviews

Restaurants

According to CANIRAC, the National Restaurant Chamber, the Mexican restaurant industry comprises 243,872 establishments, of which around 15 percent are located in Mexico City. In 2007, total restaurant sales were estimated at US\$15 billion.

Approximately 10,000 of these restaurants belong to the “organized” class of chains and large establishments, while the remainders are small, family-owned operations. There are roughly 80 restaurant chains in Mexico, a category that includes the following three types: fast food, casual dining and fine dining.

The largest chains in Mexico are fast food establishments. Domino's Pizza is the largest one with 418 units, followed by McDonald's with 367, Subway with 347, and KFC with over 320 units. Non fast-food restaurant chains are led by VIPS with 273 restaurants, followed by Sanborns with 160 units, Taco Inn 107 and TOKS 70.

As with the hotel industry, the established restaurant sector is dominated by some large groups of which Grupo Alsea is the largest with 772 restaurants, followed by Grupo Yum with 380, Grupo Walmex with 355, and Grupo Carso with 188.

Table 5. Large Restaurant Operators

Parent Company	Restaurant	# of Units	Type
Grupo ALSEA	Dominós Pizza	418	Pizzas
	Starbucks Coffee	211	Coffee Shop
	Burger King	109	Fast Food
	Chili's	23	Casual Dining
	Popeyes	11	Casual Dining
Franchises Subway	Subway	347	Fast Food
Grupo Carso	Sanborns	188	Family Cafeterias
Grupo Yum	Pizza Hut	133 + 55 franchised*	Pizzas
	KFC	239 + 81 franchised*	Fast Food
Wal-Mart	VIPS	273	Family Cafeteria
	El Portón	73	Mexican
	Tratoria Ragazzi	7	Italian
	La Finca	2	Mexican
Operadora Suiza Mexicana	Taco Inn	107	Fast Food
	Alpen House	18	Casual Dining
CMR	Wings	35	Family Cafeteria
	Barón Rojo	16	Bar
	Chili's	10	Casual Dining
	Other	13	Casual Dining
Grupo Gigante	TOKS	70	Family Cafeteria
	Casa Rodrigo	2	Fine Dining
	El Campanario	1	Mexican Food
	Tutto Bene	1	Italian Food
Comercial Mexicana	Restaurante California	72	Family Cafeteria
Grupo Anderson's	Carlos & Charlie's	31	Casual Dining
	Sr. Frog's		
	Mama Romas		
	Shrimp Bucket		

Andersons			
	La Mansión	7 + 10 Franchised	Fine Dinning
	Bistro Mosaico	6	Fine Dinning
	Casa Ávila	4	Fine Dinning
	Cucara Macara	2	Casual Dinning
	Sala 21	1	Fast Food
	Tatanka	1	Casual Dinning
	Las Chalupas	1	Fast Food
Grupo IRC	Champ's Elise's	2	Fine Dinning
Garabatos			
Grupo Garabatos	Casa del Pastor	20	Coffee Shop
Wenco-Mexico	Wendy's	17	Fast Food
	Hard Rock Cafe	8	Casual Dinning
	Planet Hollywood	2	Casual Dinning
	Rain Forest Cafe	3	Casual Dinning
Grupo ECE	Hooters	2	Casual Dinning
Grupo Refran	Sirloin Stockade	12	Fast Food
	Centro Castellano	2	Fine Dinning
	Casa de Castilla	1	Fine Dinning
Grupo Castellanos	Torre de Castilla	1	Fine Dinning
Beer Factory	Beer Factory	4	Casual Dinning

Source: Phone interviews and Internet

*Not owned by Grupo YUM

Well-known U.S. restaurants such as The Palm, China Grill and Le Cirque can be found at the finer Mexican hotels. These restaurants must follow exact U.S. standards and Mexican operators must source U.S. products. By contrast, chains such as Grupo Anderson's (Señor Frogs, Carlos and Charlie's) that also cater to national and international visitors, source most of their product nationally and only import liquor, wine, and sauces.

This sector is in continuous expansion. Globalization is reaching this sector which centralizes the purchasing of food and beverage products and reduces operation costs.

The many fast food restaurants that have entered Mexico in the past 25 years continue to expand as in the case of Wendy's, which had been operating only in the north of Mexico (mainly in Cd. Juarez, Chihuahua) but has recently sold two more franchises that will operate in Mexico City. The plan is to open over 60 restaurants in the next 7-10 years.

Many of the international chains, both fast food and other franchises, begin operations in Mexico by importing virtually all of their consumables from the home distribution center, usually in the United States. This percentage decreases over time as Mexican suppliers fill the gap. The distributor serving KFC and Pizza Hut, for example, imported 80 percent of its food products from the United States in 1995. That figure is now down to less than 20 percent. McDonald's has reduced its food imports to less than ten percent. Shopping malls around the country feature food courts with well-known U.S. fast food franchises.

Institutional Food Sector

The Mexican institutional food service industry includes manufacturing facilities, airline and cruise ship catering, hospitals, schools, golf courses, institutional food cafeterias, the military and prisons.

Airlines: Airlines continue to outsource the preparation of in-flight meals to catering companies known as “comisariatos”. There are only two companies serving this market: Gate Gourmet and LG Skychef (former Luftansa Services and a merger of Skychef and Aerococina).

Airlines such as Aeromexico select the menu and define the portion sizes. The contracted caterer will choose suppliers based upon price and quality defined by the airline. Aeroméxico is also following the global trend in aviation to reduce the costs associated with serving food in the flights. They are serving hot meals only in long international flights and cold meats in other flights that were serving hot meals before. Cold meals once served, on short flights have replaced them for snacks.

The caterers primarily source with local suppliers, through companies like Gate Gourmet are increasingly purchasing dairy from Uruguay, Chicken and seafood from Chile and wines from various countries. They would be interested in sourcing these products from the U.S. While in most cases the caterer decides on ingredients, there are instances in which the airline will request a certain product or brand. Samplings are a common way of doing product trials.

Military and prisons: The Mexican military’s food purchasing is decentralized. According to a purchasing officer at Navy Command, each base around the country is responsible for purchasing locally. Imported products are generally not considered unless they are price competitive with local inputs.

Prisons also source all their food requirements locally. There are three different jurisdictions operating prisons in Mexico: Federal, State and Municipal. Prison contracts are awarded almost solely on price and imported products are rarely purchased.

Company cafeterias: A high percentage of Mexican companies – both manufacturers and professional offices – provide meals to their employees, either free of charge or at greatly reduced prices. Most, of them offer full meals at reduced costs so imported products are rarely in their shopping lists. Some large corporations, such as GE or Scotia bank Inverlat, have VIP restaurants in their premises for executives and they use some imported products in their menus sourced from local distributors.

Hospitals: There are around 30,000 hospital units in Mexico. Over 60 percent of them are state-owned and purchase very little imported product. Private hospitals catering to higher income patients sometimes buy imported food for their menus if the price is right.

SECTION III. COMPETITION

Local manufacturers are the main competitors for U.S. exporters selling to the HRI sector. Large processors such as Herdez (canned goods), Bimbo (bread and baked goods), and Sabritas (snacks) dominate their segments and have sophisticated production and delivery systems. The brewing giants, Grupo Modelo and Cervecería Cuauhtémoc, have almost complete control over beer distribution. Important multinational firms active as local suppliers include Bacardi, Campbell’s, Coca Cola, Danone, Del Monte, General Mills, Kraft Foods, Nestlé, and Unilever among others.

The United States dominates Mexico’s food imports with around 70 percent of the total market. As a result of other free trade agreements that Mexico has negotiated with other countries, third country competition has increased. Chile is a good example bringing in large amounts of fresh fruits, wines and seafood; Canada is selling more meat; the European Union also has signed a treaty and although meat and dairy products are not part of the

treaty they also sell big amounts of wine into this country. China is exporting large amounts of fish.

Table 6. Food Product Imports Ranked by Country 2007
(USD million)

Product	Country	Total Imports	Import Market Share
Beef	United States	\$ 886	86
	Canada	\$ 135	13
Pork	United States	\$ 456	89
	Canada	\$ 48	9
Chicken	United States	\$599	90
	Chile	\$66	9
Cheese	United States	\$165	48
	Chile	\$63	18
	Chile	\$36	10
	Uruguay		
Cereals	United States	\$557	98
	Canada	\$7	1
Fish & Seafood	United States	\$33	20
	China	\$110	25
	China	\$38	13
	Chile		
Bread & Bakery	United States	\$120	61
	Italy	\$15	8
Sauces & Preparations	United States	\$151	89
	Canada	\$4	2
Soups & Broths	United States	\$178	90
	Thailand	\$10	5
Wine	Spain	\$45	31
	Chile	\$29	20
	France	\$27	19
	Italy	\$14	9
	Argentina	\$11	8
	United States	\$9	6
Other Food Preparations	United States	\$465	77
	Chile	\$42	7

Source: World Trade Atlas

SECTION IV. BEST PRODUCT PROSPECTS

Products with good sales potential into the Mexican HRI market:

- Meats (pork and beef)
- Fish and seafood products (lobster, crab, squid and salmon)
- Ice cream (high quality)
- Processed fruits and vegetables (potatoes)
- Egg and other poultry products (duck)
- Pre-made sauces, dressings and salsas
- High quality innovative snack foods
- Healthier foods (low cholesterol, gluten free, low fat)
- Pre-made appetizers

SECTION V. POST CONTACT AND FURTHER INFORMATION

For further information or assistance to export U.S. agricultural products to Mexico, please contact the U.S. Agricultural Trade Office in Mexico City or in Monterrey, Nuevo Leon at the following addresses:

U.S. Agricultural Trade Office, Mexico City

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U.S. Agricultural Trade Office, Monterrey

Richard Battaglia, Director
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 64650 Monterrey, N.L.
 Tel. (81) 8333 5289
 Fax: (81) 8333 1248
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Industry Contacts

Company	Address	E-mail	Telephone and Fax
National Association of Department Stores and Retailers (ANTAD)	Homero 109 Piso 11 Col. Polanco 11560 México DF	gral@antad.org.mx	Tel. (55) 5580-1772 Fax: (55) 5395-2610
National Association of Hotel Chains	Reforma No. 155 Col. Lomas de Chapultepec 11500 México, D.F.	avazquez@grupoposadas.com	Tel. (55) Fax: (55)
Mexican National Association of Hotels and Motels	Balderas No. 33-414, Piso 4 Col. Centro 06040 Mexico DF	amhmmex@prodigy.net.mx	Tel. (55) 5510-8614 Fax: (55) 5510-8874
Mexican Association of Restaurants (AMR)	Torcuato Tasso No. 325-103 Col. Polanco	www.amrac@prodigy.net	Tel. (55) 5250-1146 5531-0911

	11560 Mexico DF		Fax: 55 55-45-86-71
Mexican Association of Hospitals	Queretaro No. 210 Col. Roma 06700 Mexico DF	amhospitales@hotmail.com	Tel. (55) 5574-0128 5237-9986 Fax: (55) 5584-1882
National Chamber of the Industry of Restaurants and Food (CANIRAC)	Aniceto Ortega No. 1009 Col. Del Valle 03100 México DF	canirac4@prodigy.net.mx	Tel. (55) 5604-0418 5604-4206 Fax: (55) 5604-4086